



POLITICAS ECONOMICAS Y PRODUCTIVIDAD

Honduras Policy Enhancement and Productivity (PEP) Contract

QUARTERLY PROGRESS REPORT
July – September 2003

Contract No. 522-C-00-00-00203-00

USAID Productivity and Policy Enhancement (PROPEP) Activity

Submitted to:

U.S. Agency for International Development/Honduras
Raymond Waldron, Director Agriculture & Natural Resources

Submitted by:



CHEMONICS INTERNATIONAL INC.

Tegucigalpa, September 2003

Project: Honduras Policy Enhancement and Productivity (PEP)
Contract No. 522-C-00-00-00203-00
Project: 522-0395 (PROPEP)
Report Title: **“Quarterly Progress Report (July – September 2003)”**
Submitted by: PEP Project Chemonics International Inc., Edificio PALIC, Tercer
Piso, Avenida República de Chile, Colonia Palmira, Tegucigalpa,
Honduras
Tel: 504-239-3439, 220-5562 Fax: 504-239-4188

TABLE OF CONTENTS

	<u>Page</u>
Executive Summary: PEP Quarterly Progress Report (JULY – SEPTEMBER 2003)	I
SECTION I: SIGNIFICANT ACCOMPLISHMENTS	1
A. Introduction	1
B1. Improved trade capacity. PEP assists SIC in obtaining \$101,000 non-reimbursable funds from the <i>Banco Centroamericano de Integración Económica</i> to establish the <i>Unidad de Información y Divulgación</i> and implement a communications strategy on CAFTA negotiations	2
B2. Improved trade capacity: Analysis of sensitive Honduran agricultural products completed to support CAFTA trade negotiations	2
B3. Improved trade capacity: PEP-assisted funding to support trade negotiations at SIC reaches Lps 5.97m from the GOH budget and \$562,000 from multilateral agencies	3
B4. Increased private investment: Construction of \$2m beach hotel gets under way in the proposed <i>Malecón</i> of La Ceiba's <i>Zona Viva</i> Project	5
B5. Improved city competitiveness: Chambers of Commerce of La Ceiba, Bay Islands, and entrepreneurs begin negotiations to assume private sector administration of La Ceiba's <i>Muelle de Cabotaje</i>	7
B6. Improved competitiveness of client firms: PEP-supported transactions reach Lps. 80.4m	8
SECTION II: WORK PLAN IMPLEMENTATION	9
A. Economic and financial policy support	11
B. Business development	12
B1. Improved competitiveness of client firms: Investment, sales, and employment	12
B2. Improved core business systems of client firms	16
B3. Client base and pipeline of project assistance by economic corridor	17
B4. <i>Fondo de Asesoría de Negocios</i> : Expenditures and commitments	17
B5. BDS Program implementation status	18
C. Project management, monitoring and evaluation	18
D. Seminars, Conferences, Workshops, and Fora	18
E. Major activities planned for the next quarter	19
SECTION III: PROJECT MANAGEMENT AND ADMINISTRATION	22
A. Introduction	22
B. Significant project management and administration activities	22
C. Personnel changes	22
C1. Personnel departures	22
C2. Hiring of new personnel	22
D. Major problems and actions	22
D1. Civil action suit update	23
E. Financial Information	23

EXECUTIVE SUMMARY: PEP QUARTERLY PROGRESS REPORT (JULY – SEPTEMBER 2003)

THE PROJECT

The purpose of the Policy Enhancement and Productivity Activity—PEP Project in Spanish (*Políticas Económicas y Productividad*)—is to reduce poverty through sustained economic growth. PEP has two major components: a “policy” component and a Business Development Services (BDS) component. The former provides support for economic and financial policy based on an agreed upon policy agenda informed by explicit policy objectives. The BDS component provides assistance in sales, marketing production processes and financial management to high-potential firms. BDS operates in two “economic corridors” of Honduras—the *Corredor del Sur* and the *Corredor del Litoral Atlántico*.

Policy component purpose and objectives

The purpose of the component is to provide support for consolidated economic policies that foster open markets, entrepreneurship and competition. Objectives of the policy support agenda for 2003 are:

- Improved trade capacity
- Improved fiscal policy management
- Improved environment for firm competition
- Effective response to emerging policy initiatives.

Through its policy support component PEP assists the GOH in providing a stable macroeconomic environment and a competitive business climate (microeconomic environment) conducive to sustained economic growth and poverty reduction.

BDS component purpose and objectives

The purpose of the component is to improve the competitiveness of firms and secondary cities in the two economic corridors where the project operates. The objectives of the BDS component at the firm level are:

- Improved business performance of client firms: increased sales, increased efficiency of investment and working capital, and growth or preservation of sustainable employment
- Improved core business systems of client firms: improved sales and marketing systems, production processes, accounting, management, and administration, and financial management.

The objectives of BDS at the city, regional, and sectoral level are:

- Improved attractiveness of cities and regions to private investment through the structuring of commercially viable private-public transactions
- Improved sectoral competitiveness to increase client firms’ performance.

PROJECT RESULTS

The project delivered tangible results in the area of policy and value for money in business development. In the policy support area, results on the improved trade capacity policy objective were as follows:

- \$562,000 from multilateral agencies and Lps 5.97m from the GOH budget leveraged by the project to support trade negotiations at SIC
- Funds to establish the *Unidad de Información y Divulgación* at SIC and implement a communications strategy on CAFTA negotiations obtained from the *Banco Centroamericano de Integración Económica* (\$101,000, non-reimbursable)

- Completion and release in time for the fifth round of CAFTA negotiations held in Tegucigalpa of a technical analysis of sensitive Honduran agricultural products, “Indicadores de sensibilidad de productos agroalimentarios de Honduras: Documento Referencial”—in printed form and mini CDs
- Assistance with implementation of SIC’s *Sistema de Información para las Negociaciones Comerciales* (SINC): approximately sixty percent of PC desktop units and 512K wide band Internet connectivity installed and work initiated on Internet Web site design
- Design work began on CAFTA regional outreach workshops, with implementation expected to begin during the next quarter

The project also delivered value for money results in BDS, as follows:

- Cumulative value of PEP’s BDS supported transactions reached Lps. 80.4m—US\$2.7m—representing a nineteen-fold leverage of fully-burdened program costs so far
- Under the increased private investment objective, construction of a \$2 million beach hotel complex on the proposed *Malecón* of La Ceiba’s *Zona Viva* project got underway, reflective of investors’ confidence in the PEP-initiated project; project finance for construction of the hotel was also structured by PEP
- Under the improved city, regional, and sectoral competitiveness objective, the project supported the regional Chambers of Commerce of La Ceiba and Bay Islands and local entrepreneurs in obtaining a commitment from the Presidency and the *Empresa Nacional Portuaria* (ENP) to transfer management and administration of La Ceiba’s *Muelle de Cabotaje*—port facilities—to the private sector

Section I, *Significant accomplishments*, provides details of these results.

PROJECT MANAGEMENT

Management and administration provided flawless support for the high level of project activity during the quarter and initiated the execution of project closeout activities as scheduled in the Annual Work Plan.

CONTENTS AND ORGANIZATION OF THE QPR

The report contains three sections. In the first section we describe significant accomplishments of the July-September 2003 quarter. The second section contains a detailed status report of the Annual Work Plan by component and activities. The third section describes significant project management and administration actions, including a line budget status report as of the end of closing of accounts in September 2003.

Exhibit I-2: Cumulative value of transactions by type

SECTION I: SIGNIFICANT ACCOMPLISHMENTS

This report covers the July-September 2003 quarter and describes significant project accomplishments, the status of work plan implementation, and project management and administration activities. In Section III, we also include updated project budget information.

A. Introduction

The project delivered tangible results during the quarter, consistent with its 2003 Annual Work Plan (AWP-2003). Results in the area of improved trade capacity provided the *Secretaría de Industria y Comercio* (SIC) with needed resources and technical analyses to support CAFTA trade negotiations. PEP leveraged significant resources for those efforts, well beyond available project resources.

Project results in improved city competitiveness included a commitment by the Presidency and negotiations between the *Empresa Nacional Portuaria* (ENP), local entrepreneurs, and local Chambers of Commerce to transfer management and administration of La Ceiba's harbor facilities, its *Muelle de Cabotaje*, to the private sector in order to improve its operations.

Investors' confidence in the *Proyecto de la Zona Viva* de La Ceiba is bringing new private investment to the city as construction of a \$2m beach hotel complex in the proposed *Malecón de la Zona Viva* got underway during the quarter.

The cumulative value of project-supported transactions in the Business Development Services area reached Lps. 80.4m during the quarter, a 1:19 leverage ratio of transaction value relative to total burdened program costs.

Project management and administration began implementation of the project demobilization plan on schedule to ensure orderly closing of activities, staff, and outstanding contracts.

Key results are summarized below.

B. Significant accomplishments

Main project achievements of the quarter, under AWP-2003 activities include:

- Improved trade capacity: PEP assists SIC in obtaining \$101,000 non-reimbursable funds from the *Banco Centroamericano de Integración Económica* to establish the *Unidad de Información y Divulgación* and implement a communications strategy on CAFTA negotiations
- Improved trade capacity: Analysis of sensitive Honduran agricultural products completed to support trade negotiations
- Improved trade capacity: PEP-assisted funding to support trade negotiations at SIC reaches Lps 5.97m from the GOH budget and \$562,000 from multilateral agencies

- Increased private investment: Construction of \$2m beach hotel gets under way in the proposed *Malecón* of La Ceiba's *Zona Viva* Project
- Improved city competitiveness: Chambers of Commerce of La Ceiba, Bay Islands, and entrepreneurs begin negotiations to assume private sector administration of La Ceiba's *Muelle de Cabotaje*
- Improved competitiveness of client firms: PEP-supported transactions reach Lps. 80.4m

We provide a brief summary of these below.

B1. Improved trade capacity. PEP assists SIC in obtaining \$101,000 non-reimbursable funds from the *Banco Centroamericano de Integración Económica* to establish the *Unidad de Información y Divulgación* and implement a communications strategy on CAFTA negotiations

Under Annual Work Plan 2003 Activity A1.6.2, the project assisted the *Secretaría de Industria y Comercio (SIC)* in the preparation of a proposal, "Estructura, plan de acción y presupuesto de la Unidad de Información y Divulgación de las negociaciones comerciales." Completed in May as a working draft, the proposal was discussed within SIC, negotiated informally with BCIE with PEP's assistance and submitted officially to BCIE in June. SIC received BCIE's formal concurrence letter on 30 September, granting \$101,000 non-reimbursable funds for the creation of the UID and the implementation of SIC's CAFTA negotiations outreach program to civil society and private sector entrepreneurs.

Funding from BCIE includes the procurement of a server, operating system, and applications software to support a Web presence for SIC to inform civil society and elicit feedback on CAFTA trade negotiations and for the hiring of UID staff, among other items.

Funds for SIC's Internet Web site design are being sought from USAID's IR 4 regional program to support trade negotiations. Also included in this request for \$182,945 is support for a mass media campaign and regional workshops to inform civil society about CAFTA negotiations and develop mechanisms for participation. During the next quarter the project will assist SIC in preparing and submitting a funding request to the USAID's regional program to implement the communications strategy detailed in the SIC-PEP proposal and action plan document.

**"SENSITIVE"
AGRICULTURAL
PRODUCTS
CONSIDERED**

- White and yellow maize
- Rice
- Poultry
- Eggs
- Beef
- Pork
- Fluid milk

B2. Improved trade capacity: Analysis of sensitive Honduran agricultural products completed to support CAFTA trade negotiations

At the request of SIC, the project assisted with the preparation of a framework for analysis and measurement indicators of sensitive agricultural products, "Indicadores de sensibilidad de productos agroalimentarios de Honduras: Documento Referencial."

Released in time for the fifth round of CAFTA negotiations, the document:

- Defined and provided quantitative indicators of sensitivity of the selected agricultural products
- Analyzed Honduran and US production support programs and export incentives for these commodities
- Summarized WTO permissible agricultural support programs.

The reference document was released in printed form as well as in a mini CD format for easy transport and reference by Honduran negotiators.

B3. Improved trade capacity: PEP-assisted funding to support trade negotiations at SIC reaches Lps 5.97m from the GOH budget and \$562,000 from multilateral agencies

Close project collaboration with the *Secretaría de Industria y Comercio* (SIC) to meet funding requirements to support trade negotiations has yielded tangible results. By the end of the quarter, PEP had assisted SIC in securing funding of approximately six million Lempiras from the national budget and \$562,000 from multilateral agencies; additional requests for \$182,000 and Lps 870,000 were also in process. Exhibit I-1 provides details on sources, amounts, and use of funds.

To obtain this funding, the project assisted SIC in preparing the analyses, justification, work plans, and budgets. The project also provided support in the submission, processing, and negotiations with the relevant agencies.

Submissions and negotiations with the *Secretaría de Finanzas* (SEFIN) resulted in budget allocations of Lps 8m obtained from two separate requests. The first request for Lps 6m was to fund transportation and per diem requirements for the team of negotiators; the second request, for Lps 2m, was to cover the expenses associated with Honduras hosting of the fifth round of CAFTA negotiations.

Exhibit I-1: New funds procured with PEP support to support trade negotiations

Source of funds	Lps. Amount	US\$ Amount	Use of funds	Notes
IDB's <i>Programa de Apoyo a la Gestión de Comercio Exterior</i> (Non-Reimbursable Technical Cooperation Agreement No. ATN/SF-7665-HO)		90,200.00	Acquisition of PC desktop equipment, peripherals, network equipment, PC operating systems and applications software.	Based on SIC-PEP's IT infrastructure assessment report, <i>Adquisición de equipos para el mejoramiento de la infraestructura informática de apoyo a las negociaciones comerciales.</i>
Secretaría de Finanzas (SEFIN)	859,560.00		GOH counterpart funds	Counterpart funds required by IDB's <i>Programa de Apoyo a la Gestión de Comercio Exterior</i> (Non-Reimbursable Technical Cooperation Agreement No. ATN/SF-7665-HO)
IDB's <i>Programa de Apoyo a la Gestión de Comercio Exterior</i> (Non-Reimbursable Technical Cooperation Agreement No. ATN/SF-7665-HO)		255,804.00	Creation and staffing of the <i>Unidad de Análisis Técnico de Comercio</i>	Based on SIC-PEP's <i>Fortalecimiento de la Secretaría en gestión del comercio exterior: Creación de la Unidad de Análisis Técnico.</i>
Secretaría de Finanzas (SEFIN)	4,200,000.00		Travel, lodging and per diem for negotiators	
Secretaría de Finanzas (SEFIN)	920,000.00		Honduras' hosting of CAFTA's fifth round of negotiations held in Tegucigalpa in June 2003	
IDB Loan to the GOH for the <i>Programa para el Fomento de la Competitividad Empresarial y Fortalecimiento de la Gestión de Comercio Exterior</i> , for SIC, with FIDE acting as the project management unit		115,000.00	Loan funds to be used after non-reimbursable funds are utilized.	Loan funds. PEP assisted SIC in negotiating retroactive recognition of expenses up to \$115,000 included in the loan document. The project also helped SIC in obtaining a credit line at SEFIN as a bridge financing mechanism.
Banco Centroamericano de Integración Económica (BCIE)		101,000.00	CAFTA communications strategy, hardware, operating systems and, applications software for SIC's Web server	Based on SIC-PEP's <i>Estructura, plan de acción y presupuesto de la Unidad de Información y Divulgación de las negociaciones comerciales.</i>
USAID IR 4 Regional Trade Capacity Improvement funds		182,945.00	CAFTA outreach program	Based on SIC-PEP's <i>Estructura, plan de acción y presupuesto de la Unidad de Información y Divulgación de las negociaciones comerciales.</i>
Secretaría de Finanzas (SEFIN)	870,000.00		BCIE Agreement GOH counterpart funds	Pending. SEFIN waiting for SIC's processing of disbursements made under the Lps 6m and Lps 2m budget allocations.

Total funds obtained:	5,979,560.00	562,004.00
Total funds request in process:	870,000.00	182,945.00

FB:ib

File: Tables QPR Apr-Jun-03.xls

With the funding now in place, project assistance to SIC in trade capacity building during the next quarter will focus on execution of the strategy and activity work plans prepared. Key activities scheduled for the next quarter include:

- The design, preparation of materials and plans for the implementation of the CAFTA negotiations communications strategy through a series of regional workshops
- Rollout of the regional workshops
- Assistance with the staffing and operations of the Technical Analysis Unit and the *Unidad de Información y Divulgación* according to plans
- Assistance with accounting and administration to prepare vouchers and requisite back-up documentation to submit and clear expenditures claims against funds secured from the different sources
- Assistance with specifications, requirements definition, and negotiations for the design of SIC's Web site on trade negotiations.

As SIC will require support for these activities beyond the end of the project in late October, provisions will have to be made to continue the momentum and high level of activity so far achieved.

B4. Increased private investment: Construction of \$2m beach hotel gets under way in the proposed *Malecón* of La Ceiba's *Zona Viva* Project

Construction of a \$2 million beach hotel facility began in late April and a public ceremony to “set the first brick” took place on 27 May with the attendance of the Minister of Tourism, Mayor, local authorities, and functionaries of the bank providing finance for the project.

Attracted by the prospect of the *Malecón* and renewal of La Ceiba's *Zona Viva*, the hotel under construction will provide jobs during its construction and when it begins operations, after the project ends.

Construction is proceeding rapidly, with PEP-assisted project finance being provided by *Banco Atlántida*. The significant investment being made—currently the largest private construction project in La Ceiba—demonstrates investors' and bankers' confidence in the viability of the *Zona Viva* project conceived by PEP to rejuvenate businesses in this secondary city.

Funded through the IDB/SEFIN Pre-investment Funds, terms of reference for the feasibility and design of a sanitary land fill and water-wastewater connections in the zone are completed. With funding from the same source, terms of reference for the analysis and design of coastal protection structures are scheduled for completion during the next quarter.

With PEP and municipal financing, the terms of reference for the feasibility and design of the *Malecón Peatonal* of the *Zona Viva* will be completed during the next quarter. The project will also work with the *Unidad de Formulación y Seguimiento de Proyectos* (UFSP) of the Municipality during the next quarter to prepare the evaluation criteria and scoring for the pre qualification of firms to participate in the international tender for the feasibility and design work of the *Zona Viva* project components.

Zona Viva Project transition plan. Recently formed at the municipality with PEP's technical assistance, the project formulation and monitoring unit of the municipality (UFSP) will assume responsibility for the implementation of the *Zona Viva* project.

During the next quarter, PEP will continue to work closely with UFSP and assist it with the selection of short-listed, pre-qualified firms. The project will also work with the UFSP of the municipality in the preparation of a second set of evaluation criteria and scoring. These criteria will be used for the selection of firms in the forthcoming international tender that the IDB will issue through UNDP's administration for the feasibility and design works of the *Zona Viva* project.

While publication of the international tender for the selection of firms to perform the feasibility analysis and design work of the *Zona Viva* project components is expected to take place before PEP's end date in October, actual selection of the firm will occur after that date. Provisions will have to be made for targeted assistance to La Ceiba's Municipality for successful completion of the contract awards and, further on, to structure and secure financing for this USAID-sponsored project.

Recommendation. Now that USAID funding through another project has redirected the discharge of untreated sewage away from the city beaches of the proposed Malecón and into oxidation lagoons, the Mission may also wish to consider designing and sponsoring a beach sanitation, monitoring and protection activity for La Ceiba as a component of a natural resources management project under its new strategy.

With relatively modest additional resources, the Mission has a real opportunity to capitalize on the work done by PEP and its municipal projects to help La Ceiba recover its city beaches and make them attractive to national, regional, and European tourism. This influx of visitors will help the city capitalize on its Caribbean location and gateway position to the Bay Islands and ecological tourism attractions. More tourism will bring jobs and investment to the city and thus help reduce poverty.

Likewise, using PEP's trailblazing efforts in commercial structuring of transactions and leveraging of funds from multilateral agencies, the Mission should consider the provision of targeted technical assistance to help La Ceiba's Municipality. Beyond PEP's end-of-project, this assistance needs to focus on the:

- Evaluation of offers and contract award for the international tender to conduct the feasibility analysis and design works of La Ceiba's *Zona Viva* project components
- Consultation with and involvement of private sector entrepreneurs, business community, and civil society in general in decisions about the project
- Assistance to the Municipality to prepare for and secure funding from multilateral organizations, most likely the IDB, for the construction works
- Management and monitoring of the *Zona Viva* Project.

B5. Improved city competitiveness: Chambers of Commerce of La Ceiba, Bay Islands, and entrepreneurs begin negotiations to assume private sector administration of La Ceiba's *Muelle de Cabotaje*

Culminating a series of workshops sponsored by the Chamber of Commerce and Industry of Atlántida (CCI-A), a meeting was held on 16 May in La Ceiba between the President, the Director of the *Empresa Nacional Portuaria* (ENP), the Mayor, members of the CCI-A, local entrepreneurs and businesses operating in the *Muelle de Cabotaje* to seek interim solutions to dredge the harbor so that it would continue operations and negotiate a contract for the private administration of the facility.

The President expressed its commitment to both requests and instructed the ENP to seek ways to transfer the management of operations of the *Muelle de Cabotaje* to the private sector. ENP put a new administration in place which has since tripled revenues of the facility and began dredging operations. Unfortunately, a severe storm damaged the floating pump and dredge unit before it could complete but one third of the projected works.

Over the past nine months operators using the *Muelle de Cabotaje* have been decreasing their operations or leaving due to the dangerous depth levels of the harbor and poor management of the facility. Confronted with the potential loss of the facility and its impact on La Ceiba's businesses—freight costs, revenues, and jobs—the Chamber got involved at the request of affected businesses.

PEP responded to CCI-A's request for assistance during the quarter by developing and implementing a series of workshops and meetings held in La Ceiba to explore alternative scenarios of private sector involvement in the administration of the *Muelle de Cabotaje*, as well as prepare and agree on an action plan. The project assisted the Chamber in conducting two workshops in La Ceiba on 28 April and 26 May. The first was a workshop for members of the CCI-A; the second, for local entrepreneurs and businesses using the port facility. Based on the PowerPoint presentations and discussions, agreement was reached to prepare an action plan, timetable, and draft a formal petition to the ENP and the President for the transfer of management of the facility to local private sector entrepreneurs.

Now that the petition has been granted, the Chambers of Commerce of Atlántida, Bay Islands, and local entrepreneurs are in the process of constituting a company that would present a proposal to administer the facility. The ENP, under orders from the Presidency, has promised technical assistance for the feasibility analysis but cannot be directly involved as it will be a party to the potential transaction.

What is required. The Chamber and PEP held discussions during the quarter with a specialized engineering firm to conduct a feasibility analysis of the private administration of the facility (revenue and expenses) and the parties expect to negotiate a contract during the next quarter. As per PEP's operating procedures, this will be a 50/50 cost-sharing contract. A major focus of the feasibility analysis will be the estimation of dredging operating costs once ENP turns the facility fully dredged and operational to a private sector administrative entity. The feasibility study will also perform a cost-benefit analysis of capital expenditures on harbor protection structures relative to reductions in the rate of sand sedimentation and, hence, on recurring dredging maintenance costs.

B6. Improved competitiveness of client firms: PEP-supported transactions reach Lps. 80.4m

After fifteen months of operations, the cumulative value of PEP-supported transactions for client firms reached Lps. 80.4m by the end of the quarter, representing a 1:19 leverage ratio over the total burdened cost of the *Programa de Asesoría de Negocios* (PAN). Exhibit I-2 shows the cumulative values for the different transaction types.

These remarkable results obtained in fifteen months with the modest resources assigned to the *Programa de Asesoría de Negocios* validate the soundness of the design of the program and demonstrate that a demand exists for quality business development services structured on client co-payment schemes.

Dissemination of the methodology. To share the results and methodology of the program so that other parties may continue it after PEP ends, the project will prepare a detailed presentation during the next quarter. Project staff will initiate a series of presentations to and discussions with SIC, COHEP, FIDE, bilateral and multilateral agencies to that effect.

SECTION II: WORK PLAN IMPLEMENTATION

This section presents the detailed implementation status of the 2003 Annual Work Plan (AWP-2003) in its two main components: Economic and Financial Policy Support and Business Development. Additionally, the section also describes work done under Project Management, Monitoring & Evaluation, the seminars, conferences and fora held, and major activities planned for the next quarter. As per AWP-2003, the policy agenda and performance indicators for the Economic and Financial Policy Support component are summarized in the table below:

A. ECONOMIC AND FINANCIAL POLICY SUPPORT	
Policy Support Objectives	Performance Indicators
A1. Improved trade capacity	<ul style="list-style-type: none"> * <i>Sistema de Información para las Negociaciones Comerciales</i> (SINC) established at SIC * <i>Centro de Información y Documentación</i> (CID) established at SIC * Internet Web site on Honduran trade policy and negotiations established * Technical Analysis Unit to support trade negotiations established * Selected high-priority technical analyses to support trade negotiations concluded * National communications strategy prepared, <i>Unidad de Información y Divulgación</i> to support FTAs negotiations established * Private sector support provided through high priority, short-term sectoral technical analyses done in partnership with COHEP
A2. Improved fiscal policy management	<ul style="list-style-type: none"> * Fiscal impact of petroleum tax exemptions, incentives schemes and tariff duties quantified * Models and policy options to consolidate and rationalize petroleum taxes and exemptions produced to improve fiscal management and assist in negotiations with IMF * Action plan to rationalize investment incentive schemes and export platforms, based on 'lessons learned' and quantifiable data produced to assist in IMF negotiations
A3. Improved environment for firm competition	<ul style="list-style-type: none"> * Decree to foster formal job creation and liberalize labor market issued * Funding obtained from other sources to support operations, monitoring, and evaluation of formal job creation program results * Communications strategy developed and selective implementation support provided to gather consensus around the formal job creation program * Public information and awareness campaign conducted to publicize simplified procedures introduced by the Administrative Simplification Law * Final draft of Competition Law completed, communications strategy developed, and selective implementation provided to gather consensus around the proposed Law
A4. Response to emerging policy initiatives	<ul style="list-style-type: none"> * Selective support provided to requests for policy reform initiatives considered viable, consistent with project objectives, and likely to achieve short-term results

The objectives and performance indicators agreed upon with USAID in the Business Development component for AWP-2003 were as follows:

<i>B. BUSINESS ADVISORY SERVICES AND SECONDARY CITY DEVELOPMENT</i>	
Objectives	Performance Indicators
B1. Improved competitiveness of client firms	<p><i>Improved business performance of client firms through:</i></p> <ul style="list-style-type: none"> * Increased sales * Increased efficiency of investment and working capital * Growth or preservation of sustainable employment <p><i>Improved core business systems of client firms:</i></p> <ul style="list-style-type: none"> * Improved sales & marketing systems * Improved production processes * Improved accounting, administrative, and management controls * Improved financial management and capital structure of client firms
B2. Improved city, regional, and sectoral competitiveness	<p>Commercially structured private-public transactions improve attractiveness of cities and regions to private investors</p> <p>Improved sectoral competitiveness to increase client firms' performance</p>

The project monitoring and evaluation activities scheduled in AWP-2003 are summarized below:

<i>C. PROJECT MANAGEMENT, MONITORING AND EVALUATION</i>	
Activity	Purpose
C1. PEP's "legacy": Dissemination of results	Preserve, publicize, and provide access to selected PEP's assessments, analyses, proposals, databases, presentations, and documents through CDs and Internet Web sites
C2. Chemonics International field audit of PEP's accounts	Chemonics International financial audit of PEP's accounts to insure compliance with USAID and Chemonics accounting policies
C3. PEP's final report preparation	Comply with contract requirements and provide project case studies, lessons learned, and success stories in policy, business and secondary city development
C4. PEP staff demobilization	Implement orderly closeout of employment contracts in accordance with standard Chemonics procedures and in compliance with local labor laws
C5. Office closeout	Implement standard Chemonics procedures for project office closeout: closure of leases, accounts, contracts, transfer of project equipment per USAID's instructions, archiving of project files and shipping arrangements to HO, etc.
C6. Quarterly Progress Reports	Report to USAID on work plan results and contract performance, issued quarterly
C7. PEP Review	Coverage of project activities of general interest, issued monthly

Below, we provide highlights of AWP-2003 activities for each component and at the end of the section we present the detailed tables of scheduled AWP-2003 activities and their status during the quarter.

A. Economic and financial policy support

The project worked closely with the *Secretaría de Industria y Comercio* (SIC) during the quarter, achieving solid results in the area of trade capacity improvement. Exhibit II-1, *Quarterly summary of AWP-2003 status of economic and financial policy support (July-September 2003)*, at the end of this section, provides details. The highlights in AWP Activity A1, *Improved trade capacity*, are:

AWP-2003 Activity A1.1.1: Sistema de Información para las Negociaciones Comerciales (SINC)
Procurement and installation of PC workstations were initiated at SIC during the quarter. Funding from these units came from the first disbursement of US \$90,200 from IDB's Program of Trade Negotiations Support (No. ATN/SF-7665-HO), based the assessment of the IT infrastructure prepared by SIC and PEP. By the end of the quarter, approximately sixty percent of the units had been installed and 512K wide band Internet connectivity was in place.

AWP-2003 Activity A1.3 Internet Web site on Honduran trade policy and trade negotiations
As described in Section I, *Significant Accomplishments*, the project prepared the document "Estructura, plan de acción y presupuesto de la Unidad de Información y Divulgación de las negociaciones comerciales," assisted SIC in processing the request and supported negotiations with the *Banco Centroamericano de Integración Económica* (BCIE) to obtain non-reimbursable funds of \$101,000 to support implementation of a communications strategy on TLC negotiations. These BCIE funds include support for all hardware, operating system, and applications to procure a Web server. At the end of the reporting quarter, technical specifications for the procurement were completed. Tender documents for the procurement and tender are scheduled for completion during the July-September quarter.

AWP-2003 Activity A1.4 Technical Analysis Unit

The project successfully assisted SIC in obtaining a second disbursement, for US \$ 287,551, from IDB's Non-Reimbursable Technical Cooperation Agreement No. ATN/SF-7665-HO. Submitted for IDB's consideration last quarter, the proposal will fund the creation of the Technical Analysis Unit. Staff recruitment for the unit was initiated during the quarter and is expected to be completed during the next.

AWP-2003 Activity A1.5 Technical analyses to support trade negotiations

The project completed and distributed the "Indicadores de sensibilidad de productos agroalimentarios de Honduras: Documento Referencial" in printed and mini CD format in time for Honduran trade negotiators' use during CAFTA's fifth round of negotiations held in Tegucigalpa.

AWP-2003 Activity A1.6 CAFTA support: National communications strategy and information dissemination

Funding of \$101,000 was obtained from BCIE for the creation of the *Unidad de Información y Divulgación*, as described in Section I, *Significant accomplishments*. Project will assist SIC in

submitting request to USAID's Regional Project for \$182,945 of IR 4 funds during the next quarter and has initiated the design of the CAFTA negotiations outreach workshops to be funded under this request.

In summary, the project delivered tangible results in the area of trade capacity improvement by working closely with SIC to produce relevant technical analyses and acting as a facilitator to structure fundable proposals for submission to multilateral agencies with programs to support trade capacity improvement. These proposals have met with success, as detailed in Section I.

The project was also active in the area of fiscal policy management (AWP-2003 Activity A2), as follows:

AWP-2003 Activity A2.1 Fiscal impact quantification of trade liberalization

The project held a workshop on 12 June at the *Dirección Ejecutiva de Ingresos* (DEI) to summarize and share the findings of the inter-institutional task force working on fiscal exemptions regimes in Honduran international trade policy. Results of the workshop were shared in a mini CD containing the presentation, "Degravación arancelaria y las exoneraciones fiscales a los impuestos al comercio exterior."

The project has completed full databases of Honduras tariff regimes and trade for years 2002 and 2000. Data runs for the year 2001 by SIDUNEA were incomplete. Construction of an Excel-based simulation model to examine the fiscal impact of different trade liberalization scenarios is behind schedule due to considerable delays in securing the 2001 data.

More details of AWP-2003 activities carried out last quarter and scheduled for the next in the area of policy support are found in Exhibit II-1, *Quarterly summary of AWP-2003 status of economic and financial policy support*, at the end of this section.

B. Business development

During its fourth quarter of field implementation the Business Development Services program—*Programa de Asesoría de Negocios* (PAN)—delivered tangible results, as presented in Section I. The cumulative value of PEP-supported transactions during the **July-September** quarter reached Lps. 80.4m, or US \$4.62m (at the exchange rate of Lps 17.40 per US Dollar).

Thus, by the end of the **July-September** 2003 quarter, the project achieved a nineteen-fold leverage over its burdened program costs. Transaction types included sales, capital restructurings, investment and working capital, and project finance.

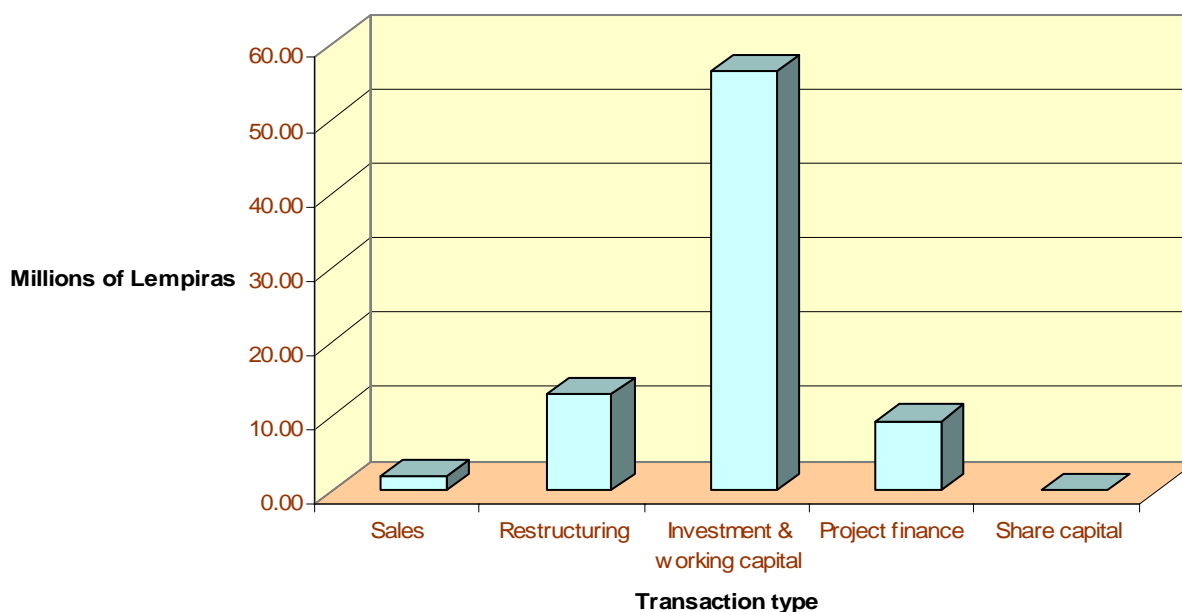
B1. Improved competitiveness of client firms: Investment, sales, and employment

Exhibit II-4 shows the cumulative results of PEP-supported transactions as of the end of the **July-September** 2003 quarter. The cumulative value of PEP-supported transactions reached Lps. **80,729,839**. Transaction types included: sales, capital restructurings, investment and working capital, project finance, and share capital.

Investment

As per Exhibit II-4, cumulative value of investment and working capital was Lps. 56.47m. and the cumulative value of project finance transactions reached Lps. 9.3m. New investment represented an estimated total of Lps. 54.4m—an equivalent of US \$ 3.13m.

Chart II-1: Value of transactions by type as of 30-Jun-03



Investment and working capital transactions accounted for the largest cumulative value, followed by capital restructurings and project finance. New capital investment for the beach hotel under construction on the *Malecón* of La Ceiba's *Zona Viva* project accounted for the largest share of investment and working capital transactions.

Exhibit II-4: Transacciones apoyadas por el Programa de Asesoría de Negocios (al 30-Junio-03)

Empresa	Tipo de Transacción	Contraparte	Monto	Fecha de Conclusión
Juan Carlos Zelaya	V	Inversiones Marbella	23,200.00	Jun-02
Juan Carlos Zelaya	V	Chicos Elegancia	21,780.00	Jul-02
Aguas de Choluteca SRL	FP	Making Cities Work Program AID/W	850,000.00	Jul-02
Juan Carlos Zelaya	V	Ventas En Danli	21,420.00	Aug-02
Juan Carlos Zelaya	CIT	Banco de los Trabajadores	15,000.00	Sep-02
Juan Carlos Zelaya	V	Independientes	6,500.00	Sep-02
Juan Carlos Zelaya	CIT	Banco de los Trabajadores	11,000.00	Oct-02
San José Obrero	V	AGROPOR	13,500.00	Oct-02
Empresa Importadora y Exportadora Mary	CIT	BAMER	1,300,000.00	Nov-02
Mariscos S.A.	RdeC	Banco del País S.A.	10,000,000.00	Nov-02
San José Obrero	V	Compañía de Transporte de Castilla	3,200.00	Nov-02
San José Obrero	V	AGROPOR	4,050.00	Nov-02
CAMARSUR	CIT	Banco del País S.A.	5,100,000.00	Dec-02
Empresa Importadora y Exportadora Mary	V	Ventas en Miami	500,000.00	Dec-02
La Ceiba Municipality/ Secretaría de Turismo	FP	SEFIN/BID Preinvestment Funds	5,763,000.00	Dec-02
San José Obrero	V	AGROPOR	13,500.00	Dec-02
Aerolíneas Sosa	CIT	BAMER	8,000,000.00	Jan-03
Compañía Centroamericana de Televisión, S.A. (CONCEVISA)	CIT	Fondos Propios	3,000,000.00	Jan-03
Litográfica Moderna	CIT	Fondos Propios	1,000,000.00	Jan-03
Litográfica Moderna	V	Ventas al Detalle	450,000.00	Jan-03
MITEC	V	Ventas al Detalle	750,000.00	Jan-03
CAMARSUR	RdeC	Banco del País	2,975,000.00	Feb-03
Compañía Centroamericana de Televisión, S.A. (CONCEVISA)	CIT	BAMER	1,000,000.00	Mar-03
Cooperativa Guapinol	CIT	FONDO VIAL	41,000.00	Mar-03
Hotel La Quinta	CIT	Fondos Propios	750,000.00	Mar-03
La Ceiba Municipality/ Secretaría de Turismo	FP	SEFIN/BID Preinvestment Funds	2,737,000.00	Mar-03
Lacteos Marcovia	V	Juan Donaie S. P. S.	13,048.00	Mar-03
MITEC	CIT	BAMER	2,000,000.00	Mar-03
Ruiz Inversiones	V	Felipe Díaz	15,000.00	Mar-03
San José Obrero	V	Standard Fruit Company	20,000.00	Mar-03
Hotel La Quinta	CIT	Banco FICOHSA	34,000,000.00	Apr-03
San José Obrero	V	Standard Fruit Company	48,465.28	Apr-03
Cooperativa Guapinol	CIT	Fondos Propios	134,750.00	Apr.-jun 03
Ferreteria Dejosesay	V	Varios	18,000.00	Apr.-jun 03
Ferreteria Dejosesay	CIT	Fondos Propios	80,000.00	Apr.-jun 03
Lacteos Marcovia	CIT	Fondos Propios	45,000.00	Apr.-jun 03
Empresa Importadora y Exportadora Mary	V	Varios local	6,426.00	Apr.-jun 03

Totales	80,729,839.28
Ventas (V)	1,928,089.28
Reestructuración de capital (RdeC)	12,975,000.00
Capital de inversión y trabajo (CIT)	56,476,750.00
Financiamiento de proyectos (FP)	9,350,000.00
Capital accionario (CA)	0.00

Sales

The cumulative value of PEP-supported sales transactions reached Lps. 1.93m by the end of the quarter, as shown in Exhibit II-4.

Employment

As shown in Exhibit II-5, total employment of PEP-assisted firms was 4,326, divided more or less equally between the economic corridors.

Exhibit II-5: Empleo a tiempo completo y temporal, por género, en las empresas clientes del PAN (30-Jun-03)

Corredor económico	Empleo a tiempo completo			Empleo temporal			Totales
	Hombres	Mujeres	Total	Hombres	Mujeres	Total	
Litoral Atlántico	1,103	493	1,596	628	8	636	2,232
Corredor del Sur	670	65	735	441	918	1,359	2,094
Totales	1,773	558	2,331	1,069	926	1,995	4,326

Exhibit II-6 shows the direct employment generated through PEP-supported transactions.

Exhibit II-6: Empleo asociado con las transacciones apoyadas por el Programa de Asesoría de Negocios (al 30-Junio-03)

Empresa	Tipo de transacción	Monto (Lps)	Productos	Empleos generados		
				A tiempo completo	Temp.	Por subcontratos
Juan Carlos Zelaya (Botas de cuero)	Ventas	72,900	Botas de cuero	3	6	
Empresa Importadora y Exportadora Mary	Ventas	500,000	Accesorios decorativos y muebles	4	10	75
San José Obrero	Ventas	11,307,250	Guantes de trabajo (cuero)	11		
Mariscos S.A. (Planta de hielo)	Arranque	10,000,000	Escarcha de hielo	3		
CamarSur (Camarones del Sur SRL)	Capital de trabajo e inversión para la siembra y cosecha	5,100,000	Producción de camarones	14	40	
MITEC	Ventas	750,000.00	Accesorios Médicos	2	0	
MITEC	Capital de Inversión y Trabajo	2,000,000.00	Accesorios decorativos y muebles	0	0	
Litográfica Moderna	Ventas	450,000.00	Impresos Comerciales	0	0	
Compañía Centroamericana de Televisión, S.A. (CONCEVISA)	Capital de Inversión y Trabajo	1,000,000.00	Servicio de Cable y Televisión	0	12	
Aerolíneas Sosa	Capital Accionario	8,000,000.00	Servicios de Transporte Aéreo	0	0	
Casa Gari	Capital Accionario	25,000.00	Crédito a Microempresas	0	0	
Hotel la Quinta	Reestructuración de Capital	750,000.00	Servicios de Hotelería.	0	20	
Compañía Centroamericana de Televisión, S.A. (CONCEVISA)	Reestructuración de Capital	3,000,000.00	Servicio de Cable y Televisión	0	0	
Litográfica Moderna	Reestructuración de Capital	1,000,000.00	Impresos Comerciales	12	1	
Cooperativa Guapinol Limitada	Inversión Fija	41,000.00	Crianza de Peces	1	60	
Lácteos Marcovia	Ventas	13,048.00	Quesillo de medio jugo		2	
San José Obrero	Ventas	20,000.00	Guantes	11	0	
Ruiz Inversiones	Ventas	15,000.00	Jugos y Gelatinas artificiales	1	0	
San José Obrero	Ventas	48,665.00	Guantes	25	0	
Hotel la Quinta	Inversión Fija	34,000,000.00	Servicios de Hotelería.	0	60	
Cooperativa Guapinol	Inversion en compra de alevines, desgranadora de Maiz, Materiales de const. Puente, Compra de Ganado	134,750.00	peces y ganado		7	
Ferretería Dejosasay	Ventas	18,000.00	Articulos de Ferrreteria			
Ferretería Dejosasay	Inversion en Camion de Reparto	80,000.00	Articulos de Ferrreteria			
Lacteos Marcovia	Compra de Cerdos y bloques	45,000.00	Lacteos, Cerdos	1		
Empresa Importadora y Exportadora Mary	Ventas locales	6,426.00	Artesanias		15	
Totales				88	233	75

RESUMEN:

Empleos a tiempo completo:	88
Empleo temporal:	233
Subcontratos:	75
Empleo total generado:	396

The cumulative total employment directly generated through PEP-supported transactions was 396 at the end of the quarter. Of these, 88 were full-time jobs, 233 were temporary or seasonal, and 75 were jobs created through subcontracting.

B2. Improved core business systems of client firms

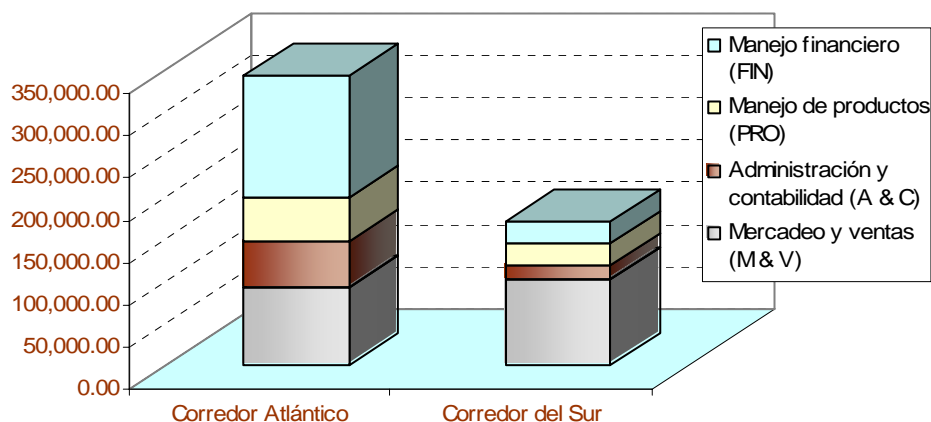
A core feature of PEP's BDS Program is the combination of transaction-based results with assistance aimed at improving client firms' sustainable competitiveness. PEP uses its *Fondo de Asesoría de Negocios* (FAN) to negotiate fixed-price subcontracts to improve client firms' core business systems: marketing and sales, administration and accounting, product management, and financial management. PEP and the client firm negotiate these contracts with third party service providers and client firms pay fifty percent of the total contract cost directly to the service provider. The cumulative value of these types of contracts, by region, is shown below:

	Corredor Atlántico	Corredor del Sur	Totales
Mercadeo y ventas (M & V)	92,924.00	101,740.00	194,664.00
Administración y contabilidad (A & C)	54,000.00	16,005.00	70,005.00
Manejo de productos (PRO)	51,500.00	26,530.50	78,030.50
Manejo financiero (FIN)	144,120.00	26,500.00	170,620.00
Totales	342,544.00	170,775.50	513,319.50

In the absence of more direct measures of improvement in the core business systems of client firms, the types of FAN contracts executed by the project provide a proxy measurement. Chart II-2 graphs the *total value* of FAN subcontracts by type and economic corridor.

As shown in the table and its graph in Chart II-2, the total value of FAN contracts executed or in process was over Lps. 513,319.

Chart II-2: Valor por tipo de contrato FAN por región



FAN contracts to improve marketing and sales of client firms account for the largest value—Lps. 194,664. The total value of FAN contracts for administration and accounting, product management, and financial management was roughly similar but of much lower total value. FAN contracts in the *Corredor Atlántico* account for two-thirds of the total cumulative value of contracts..

B3. Client base and pipeline of project assistance by economic corridor

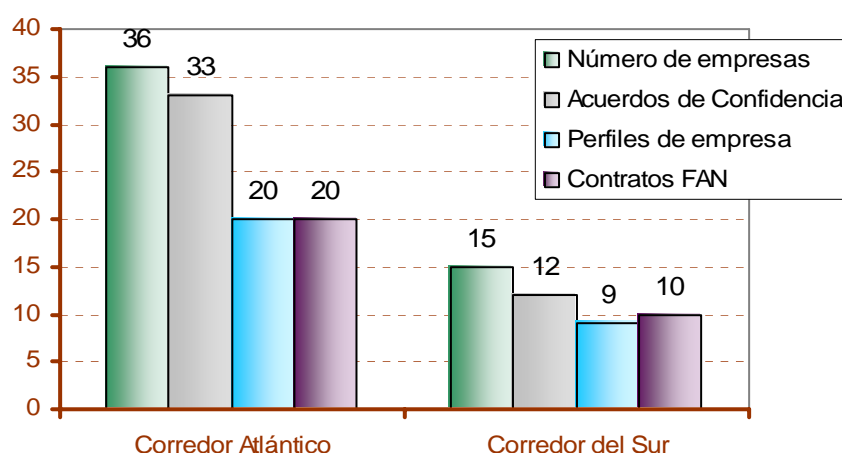
Chart II-3 displays the client base and stages of assistance provided. As of the end of the quarter, the project had 51 client firms, 45 of which had signed confidentiality agreements, 29 had client profiles, and 30 had signed FAN contracts. For the **July-September** 2003 quarter, the project added four more client firms, signed ten additional confidentiality agreements, and seven more client profiles and FAN contracts.

	Número de empresas	Acuerdos de Confidencia	Perfiles de empresa	Contratos FAN
Corredor Atlántico	36	33	20	20
Corredor del Sur	15	12	9	10
Totales	51	45	29	30

The project had 36 client firms, 33 confidentiality agreements signed, 20 client profiles and 20 FAN contracts in the *Corredor Atlántico*. The corresponding figures for the *Corredor del Sur* were 15 client firms, 12 signed confidentiality agreements, 9 profiles, and 10 FAN contracts.

The differences between economic corridors are reflective of local economic conditions and business opportunities.

Chart II-3 : Cartera de clientes y asistencia del PEP por corredor económico



B4. Fondo de Asesoría de Negocios: Expenditures and commitments

Exhibit II-7, at the end of this section, shows the expenditures and commitments of the *Fondo de Asesoría de Negocios* (FAN) by client firm and economic corridor, including the purpose of the subcontract, amounts, type of subcontract, and dates.

Total funds expended and programmed were Lps. 263,644, representing 45.77 percent of the original FAN budget. Funds of the *Fondo* were leveraged by an additional Lps. 253,014 through client co-payments to third party service providers.

There were a total of thirty FAN contracts completed or in progress at the end of the quarter; twenty of these were with firms in the *Corredor Atlántico* and ten in the *Corredor del Sur*.

B5. BDS Program implementation status

Exhibit II-2, *Quarterly summary of AWP-2003 status of Business Advisory Services and Secondary City Development*, at the end of this section, presents a detailed summary of AWP-2003 activities in this component of the project.

Increased private sector investment

Under AWP-2003, Activity B2, *Improved city, regional, and sectoral competitiveness*, and as described in Section I, construction of a \$2m beach hotel on the *Malecón* of La Ceiba's *Zona Viva* project got underway.

Private administration of the Muelle de Cabotaje

Under AWP-2003, Activity B2, *Improved city, regional, and sectoral competitiveness*, agreement was reached to work towards the transfer of the management and administration of these port facilities to the private sector. This activity was described in Section I.

Workshop on Accounting, Administration, Marketing and Sales

Under AWP-2003, Activity B2, *Improved core business systems of client firms*, BDS project staff held a workshop during 19-20 June in San Marcos de Colón for fourteen members of the *Coperativa Coapinsa* (dairy), *Grupo de Mujeres Mandaime* (coffee roasting), and leather boot producers of San Marcos.

Materials for the workshop were prepared and distributed in printed form as well as a mini-CD.

Other significant activities in Improved core business systems of client firms (AWP-2003, Activity B1.2).

The project completed the design of the logo for the marketing of roasted coffee of the *Grupo de Mujeres Mandaime* of San Marcos de Colón. Quotes from printing shops were being obtained by the end of the quarter.

The project also assisted the Chamber of Commerce of Atlántida, La Ceiba's Chamber of Tourism and entrepreneurs in the preparation of marketing materials to promote tourism in La Ceiba. Chamber of Tourism members and hospitality industry entrepreneurs used the materials during a marketing tour of El Salvador during the third week of May. The mini CD and materials were presented to tour operators in these countries.

C. Project management, monitoring and evaluation

Exhibit II-3, *Quarterly summary of AWP-2003 status of project management, monitoring and evaluation*, presents the status of activities as of the end of the quarter.

D. Seminars, Conferences, Workshops, and Fora

During the period under review 161 participants attended eight PEP-sponsored events, totaling 30.15 hours. Attendance at these events represented a total of 607 person/days—161 participants multiplied by the total hours delivered and divided over 8 hours.

The table below summarizes project activity in this area by date, event, target participants, number of participants, type of event, location, and number of hours of the event.

No.	Event code	Date	Event	Target participants	No. of Atten.	Type of event	Location (city)	Duration (Hours)
1	SCD	4/28/03	Administración de Muelles de La Ceiba	CCIA	17	Taller	La Ceiba	2.5
2	SCD	4/24/03	Experiencia del sector privado mexicano en las negociaciones e implementación del TLCAN	Empresarios	29	Conversatorio	Tegucigalpa	2
3	SCD	4/25/03	Experiencia del Sector Privado Mexicano en las Negociaciones e Implementación del TLCAN	Empresarios	28	Conversatorios	San Pedro Sula	3.15
4	SCD	5/21/03	Presentación Proyecto SURVivienda (ASJO)	Organizaciones financieras	15	Presentación	Choluteca	3
5	SCD	5/28/03	Programa de Asesoría de Negocios	Pescadores	29	Reunión- Presentación	Brus Laguna	2
6	SCD	6/12/03	Degravación arancelaria y las exoneraciones fiscales a los impuestos al comercio exterior.	DEI, SERNA, FINANZAS, TURISMO, AID	15	Presentación de Informe de exoneraciones	DEI- Tegucigalpa	1.5
7	SCD	6/16/03	Manejo de proyectos	Cooperativa Coapinsa, Grupo Mandaime, Boteros	14	Seminario	San Pedro Sula	3
8	SCD	19-20/jun/03	Gerencia, Contabilidad y Mercadeo	Grupo Mandaime, Coop. Coapinsa y Boteros San Marcos	14	Seminario	San Marcos de Colón	13

Totales: 161

30.15

Event codes: BDS = Business Development services

EFPS = Economic and Financial Policy Support

SCD = Secondary Cities Development

Total personas/días:

607

E. Major activities planned for the next quarter

Scheduled activities for the next quarter in each component of the project are as follows:

Economic and Financial Policy Support

Project activities in this area will focus largely on trade capacity building from CAFTA trade negotiations. Expected project activities during the next quarter include:

- Assistance to SIC with the implementation of the *Sistema de información para las negociaciones comerciales* (SINC): installation of PC desktops hardware, operating systems, and software applications, building of server databases, etc. (AWP-2003 Activity A1.1)
- Assistance to SIC in the establishment of the Technical Analysis Unit with US \$287,551 funding from IDB's Non-Reimbursable Technical Cooperation Agreement No. ATN/SF-7665-HO (AWP-2003 Activity A1.4)
- Assistance to SIC in the establishment of a Communications and Information Unit to implement its trade negotiations communications strategy with US \$101,000 funding obtained from BCIE (AWP-2003 Activity A1.6)
- Assistance to SIC in finishing the design and implementing regional workshops on CAFTA negotiations (outreach program) to be funded through USAID's regional IR 4 program funds (AWP-2003 Activity A1.6.3)

- Assistance to SIC on requirements definition and contract negotiations for the design of its Internet Web site (AWP-2003 Activity A1.3.1)
- Fiscal impact quantification of diverse scenarios of trade liberalization likely to be negotiated in FTAs (AWP-2003 Activity A2.3)
- Preparation of recommendations and a transition plan to support trade capacity building after the project ends in late October.

Business Development

Project management expects to concentrate efforts of the BDS Program during the forthcoming quarter in two core areas:

- Improved competitiveness of client firms: increased business performance through increased sales, increased efficiency of investment and working capital, and preservation/growth of sustainable employment (AWP-2003 Activity B1)
- Improved core business systems of client firms: improved sales and marketing systems, production processes, accounting/management controls, financial management and capital structure of the firm
- Prepare a presentation on the results and methodology of PEP's *Programa de Asesoría de Negocios* and hold meetings and discussions with SIC, COHEP, Chambers of Commerce, multilateral and bilateral agencies to disseminate the lessons learned and have these incorporated in future business development services interventions
- Assist CCI-A in developing and securing finance to set up and operate an office and program of *Promoción de Inversiones y Servicios Empresariales*.

Under AWP-2003 Activity B2, Improved city, regional and sectoral competitiveness, the project will focus on:

- Under AWP-2003 Activity B2.1, *Commercially structured private-public transactions*, the project will provide assistance to the Chamber of Commerce and Industry in La Ceiba and local entrepreneurs to conduct a feasibility study for the transfer of the *Muelle de Cabotaje* from the *Empresa Nacional Portuaria* and structure a concession for the private sector
- Monitoring the preparation of Terms of Reference for the international tender to conduct the feasibility and design of the *Zona Viva* Project in La Ceiba (AWP-2003 Activity B2.1.1)
- Build the capacity of the project formulation and monitoring unit of the municipality (UFSP) to take over responsibilities for the follow-up of the *Zona Viva* project
- Assist the municipal UFSP with the preparation of evaluation criteria, scoring, and selection of pre-qualified firms
- Assist the UFSP with the preparation of evaluation criteria for the firms to be selected through an international tender for the feasibility and design works of the *Zona Viva* project
- Financial feasibility analysis of a revolving fund for shrimp storage and processing. The project prepared the terms of reference for the feasibility study, submitted and discussed these with ANDAH's and is negotiating with a financial specialist to perform the analysis (AWP-2003 Activity B2.2.1)
- Prepare recommendations and a transition plan for supporting the implementation of the *Zona Viva* project and, if the financial analysis merits it, the set up and structuring of the shrimp storage revolving fund.

Project management, monitoring and evaluation

- The project will implement AWP-2003 Activity C1, “PEP’s legacy”: Final edits and file conversions of PEP’s assessments, proposals, databases, presentations, technical analyses, and reports in preparation for their electronic archiving and distribution
- PEP’s final report preparation (AWP-2003 Activity C3) will begin
- Preparatory closeout procedures of PEP’s office will initiate with notices to staff, providers, etc. (AWP-2003 Activity C5) in the third quarter as originally scheduled
- Review of project budget and projections (AWP-2003 Activity C6)

SECTION III: PROJECT MANAGEMENT AND ADMINISTRATION

A. Introduction

This section describes the major administrative and management activities that took place during the reporting period.

Preparations began on schedule for an orderly closeout of the field office, including a field assignment of the Chemonics Project Administrator to review project files, approvals, asset inventories under custody and prepare a more detailed demobilization plan in accordance with Chemonics standard procedures for project closeout.

Other significant activities, personnel changes, and major problems and actions are described below. Project financial information provided at the end of the section includes budget expenditures as of the end of September closure of accounts and September 2003 invoices.

B. Significant project management and administration activities

Management and administration provided flawless support to the high pace of project activities during the quarter. These activities involved the design and production of documents and CDs to support trade capacity building at SIC, workshops in La Ceiba on private administration of its port facilities and instructional materials for a workshop in San Marcos de Colón, as well as design of marketing materials for promotion of tourism in La Ceiba, and PAN clients in San Marcos de Colón.

C. Personnel changes

C1. Personnel departures

No personnel departures occurred during the quarter.

C2. Hiring of new personnel

There was no hiring of new long-term project personnel. There was one expatriate and one local short-term assignment. The Chemonics PEP Project Administrator, Mr Jerome Gutzwiller, came from Washington, DC, on TDY with the project in Tegucigalpa from 16 through 25 May. Mr Ricardo Arias was hired for local short-term assignment to assist SIC with its regional outreach program on CAFTA negotiations. Mr Arias assignment began on 16 June and will continue until 15 October.

D. Major problems and actions

No major unforeseen problems were encountered during the quarter. The status of the civil action suit is described below.

D1. Civil action suit update

We continued to monitor the civil action suits filed against Chemonics International Inc. and former Chemonics employee - Julio Paz Cafferata by Management Systems International consultant, César Alberto González.

In the suit against Chemonics, Chemonics submitted a *Recurso de Nulidad* and obtained a favorable decision. The plaintiff has appealed the decision and taken it to the Court of Appeals. Chemonics has responded and a decision was pending as of the closure of the quarter. Our local legal counsel and Chemonics' legal counsel and contracts office in Washington, D.C. are closely monitoring the case.

There was no change in the case against Mr Paz. Chemonics local legal counsel filed to dismiss the case based on the fact that Mr. González filed a countermotion without receiving notification from the court. The file to dismiss was made on December 12 and Mr. Gonzalez availed himself to his right of appeal. A decision on this issue is still pending.

Project management will continue to keep USAID/Honduras informed regarding the progress of both cases.

E. Financial Information

The table on the next page shows the budget status by line items (CLINS). It includes contract budget, amount expended by the end of the prior quarter (March 2002), amounts invoiced for each of the three months of the July-September quarter, total expended through the end of the quarter (as of the end of September 2003), and the budget remaining.

Line Items (CLINS)	Contract Budget (\$)	Total Expended Through March 2003 (\$)	April 2003 (\$)	May 2003 (\$)	June 2003 (\$)	Total Expended Through June 2003	Remainder (\$)
0001. Short Term Technical Assistance	1,530,586	2,141,980	4,603	2,756	14,109	2,163,447	-\$632,861
0002. Training/Observational Trip	858,245	418,700	0	-13	443	419,130	\$439,115
0003. Public Awareness	447,265	104,639	0	0	170	104,809	\$342,456
0004. Business Management Information	416,400	247,629	2,774	6,582	25,724	282,708	\$133,692
0005. Long-Term Technical Assistance and Logistical Support	4,608,833	4,198,898	39,931	51,406	43,704	4,333,939	\$274,894
0006. REACT	2,999,868	2,997,801	0	0	5,065	3,002,866	-\$2,998
Total	10,861,197	10,109,665	47,308	60,731	89,215	10,306,918	554,298

Actual US\$ funds remaining: 448,615

The figures reflected in the table above represent the total numbers from both the U.S. Dollar invoice submitted from Chemonics' home office and the local currency (Lempira) invoices submitted from the PEP field office. Chemonics/PEP last submitted a local currency invoice in March 2003 (approximately Lps. 254 remain in the local currency obligation). The figures are rounded to the nearest dollar and the exchange rate used to convert the local currency invoice is based on the rate used by the USAID/Honduras Controller's Office. Chemonics' June 2003 invoice included a Negotiated Indirect Cost Rate Agreement (NICRA) adjustment based on Chemonics new rates as audited by the Defense Contract Audit Agency (DCAA). This resulted in a total credit to the contract in the amount of approximately \$11,700.

The actual amount of U.S. Dollar funds remaining in the contract is \$448,615 as the initial U.S. Dollar value assigned to the contract had a local Lempira currency component of 30m which was converted to U.S. Dollars values at the prevailing exchange rate when the contract was signed. Also, in late 2002, part of the U.S. Dollar obligation was converted to local currency, increasing the local currency obligation by approximately Lps. 967,000.

Since then, as the Lempira has devalued the current U.S. Dollar value of the contract has been decreasing. This decrease in U.S. Dollar value of the contract due to depreciation of the exchange rate is approximately \$105,683. Hence, actual U.S. Dollar funds remaining in the

contract is approximately \$448,615, a figure that may be slightly different after final exchange rate adjustments are performed.